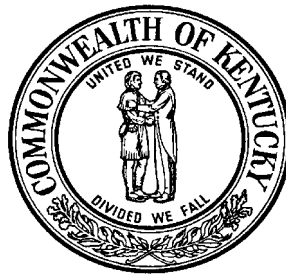


**REPORT OF THE AUDIT OF THE
WARREN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Michael Buchanon, County Judge/Executive
Honorable Jerry Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of receipts and disbursements of the Sheriff of Warren County, Kentucky, for the year ended December 31, 2001.

We engaged Carpenter, Mountjoy & Bressler, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC, evaluated the Warren County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", written in a cursive style.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE
WARREN COUNTY SHERIFF**

Calendar Year 2001

EXECUTIVE SUMMARY

AUDIT OF THE
WARREN COUNTY SHERIFF

Calendar Year 2001

Carpenter, Mountjoy & Bressler has completed the Warren County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and quarterly paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The financial statement of the Warren County Sheriff's 75% operating fund had a beginning balance of \$355,745, receipts of \$2,610,065 and disbursements of \$2,705,099 resulting in an ending balance of \$260,711 as of December 31, 2001. The 25% county government fund had receipts and disbursements of \$321,466 resulting in a zero balance.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

Report Comments:

- The Sheriff Should Improve Internal Control Related to Fuel Credit Cards
- The Sheriff Should Require The Use Of Mileage Logs For Business Use of Personal Vehicles

Subsequent Event:

- The Sheriff Should Not Loan Equipment Belonging To The Sheriff's Office

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Michael Buchanon, County Judge/Executive

Honorable Jerry Gaines, Warren County Sheriff

Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the County Sheriff of Warren County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the County Sheriff and the receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Michael Buchanon, County Judge/Executive
Honorable Jerry Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated October 14, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

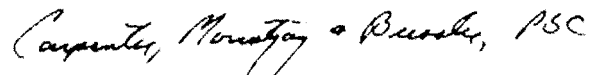
Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Improve Internal Control Related to Fuel Credit Cards
- The Sheriff Should Require The Use Of Mileage Logs For Business Use of Personal Vehicles

We have also discussed a subsequent event in the accompanying comments and recommendations.

- The Sheriff Should Not Loan Equipment Belonging To The Sheriff's Office

Respectfully submitted,



Carpenter, Mountjoy & Bressler
Frankfort, Kentucky

Audit fieldwork completed -
October 14, 2002

WARREN COUNTY
JERRY GAINES, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS

Calendar Year 2001

Receipts

State Grants		\$	146,635
State Fees for Services			339,293
Circuit Court Clerk			73,576
Fiscal Court			1,305,395
County Clerk			2,659
Commission on Taxes			781,675
Fees Collected for Services:			
Auto Inspections	\$	43,680	
Court Costs for Fiscal Court		56,700	
Serving Papers		116,121	
Carrying Concealed Deadly Weapon Permits		24,570	
Sheriff's Advertising Fees		9,445	
Sheriff's Add-On Fees -			
10% of Tax and Penalty		<u>82,122</u>	332,638
Other Receipts:			
Transporting Prisoners	\$	30,066	
Expense Reimbursements		1,583	
Interest Earned		9,545	
Miscellaneous		<u>2,494</u>	<u>43,688</u>
Total Receipts		\$	3,025,559

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 JERRY GAINES, SHERIFF
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 Calendar Year 2001
 (Continued)

Disbursements

Payments to State:

Carrying Concealed Deadly Weapon Permits	\$	16,876
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Payments Made By County:

Court Costs to Fiscal Court	\$	58,890	
Travel Expense		247	
Transporting Prisoners		15,172	
Refunds		60	
Miscellaneous		2,783	77,152
		<hr/>	<hr/>

Total Disbursements		\$	94,028
		<hr/>	<hr/>

Net Receipts	\$	2,931,531
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Payments to State Treasurer:

75% Operating Fund	\$	2,610,065	
25% County Fund		321,466	2,931,531
		<hr/>	<hr/>

Balance Due at Completion of Audit	\$	0
		<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
JERRY GAINES, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND FUND BALANCES OF THE SHERIFF'S OPERATING
FUND AND COUNTY FUND WITH THE STATE TREASURER

Calendar Year 2001

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2001	\$ 355,745	\$	\$ 355,745
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,610,065		2,610,065
Fees Paid to State - County Funds (25%)		321,466	321,466
Total Funds Available	\$ 2,965,810	\$ 321,466	\$ 3,287,276
<u>Disbursements</u>			
Warren County Government	\$	\$ 321,466	\$ 321,466
Personnel Services-			
Official's Statutory Maximum	78,822		78,822
Deputies' Salaries	1,524,042		1,524,042
Overtime Pay	179,285		179,285
Employee Benefits-			
Employer's Share Social Security	128,017		128,017
Employer's Share Retirement	115,252		115,252
Employer's Paid Health Insurance	145,817		145,817
Other Payroll Disbursements	5,436		5,436
Contracted Services-			
Advertising	13,541		13,541
Materials and Supplies-			
Office Supplies	24,902		24,902
Uniforms	12,960		12,960
Other Charges-			
Training and Travel	39,431		39,431
Telephone and Fax	54,001		54,001
Postage	17,792		17,792
Law Enforcement Equipment	79,324		79,324
CRT Team	33,446		33,446
Bond	2,664		2,664
Computer Software Upgrade	62,966		62,966
Computer Maintenance and Support	21,746		21,746
Law Enforcement Insurance	8,956		8,956

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 JERRY GAINES, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND FUND BALANCES OF THE SHERIFF'S OPERATING
 FUND AND COUNTY FUND WITH THE STATE TREASURER
 Calendar Year 2001
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements</u> (Continued)			
Other Charges - (Continued)			
Radio Maintenance and Repairs	\$ 6,253	\$	\$ 6,253
Subscription and Renewal Fees	1,496		1,496
Miscellaneous	2,853		2,853
Auto Expenses-			
Gasoline	66,848		66,848
Maintenance and Repairs	49,273		49,273
Leased Vehicle	4,816		4,816
Capital Outlay-			
Office Equipment	25,160		25,160
Total Disbursements	<u>\$ 2,705,099</u>	<u>\$ 321,466</u>	<u>\$ 3,026,565</u>
Fund Balance - December 31, 2001	<u>\$ 260,711</u>	<u>\$ 0</u>	<u>\$ 260,711</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
JERRY GAINES, SHERIFF
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The Attorney General issued a letter, which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WARREN COUNTY
JERRY GAINES, SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and 6.41 percent for the last six months of the year. The county's contribution rate for hazardous employees was 16.78 percent for the first six months of the year and 16.28 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deferred Compensation

On February 24, 2000 the Warren County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to KRS 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is present in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report.

Note 4. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WARREN COUNTY
 JERRY GAINES, SHERIFF
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

Note 4. Deposits (Continued)

These requirements were met, and as of December 31, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bonds which named the Sheriff as beneficiary/obligee on the bonds.

Note 5. Reimbursed Expenses

The amount deposited to the County Sheriff's Operating Fund (75%) with the State Treasurer included reimbursed expenses. These reimbursed expenses include payments from the state and county in addition to miscellaneous revenues. The following were reimbursed expenses, which were 100% credited to the Sheriff's Operating Fund.

Category	Amount
Fiscal Court Assistance	\$ 1,291,788
100% Fees	195,011
Kentucky Law Enforcement Program Fund	143,325
Grant Funds	13,682
Refunds	1,731
Payroll Reimbursement	<u>127</u>
Total Reimbursed Expenses	<u><u>\$ 1,645,664</u></u>

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COMMENTS AND RECOMMENDATIONS

WARREN COUNTY
JERRY GAINES, SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 2001

INTERNAL CONTROL – REPORTABLE CONDITIONS:

1) The Sheriff Should Improve Internal Control Related to Fuel Credit Cards

The Sheriff issues fuel credit cards to employees who are assigned vehicles. The cards are embossed with a name and each card has a different PIN number. The cards are usually kept in the vehicle with the PIN number written on the carrying sleeve. It is not uncommon for gas to be purchased by an employee using another employee's card. Additionally, we noted two instances of fuel credit cards assigned to former employees still being in use after employment ended. This occurred because current employees used cards that had been left in the vehicle by former employees. These practices undermine the internal controls put in place by assigning names and PINs to the fuel cards. We recommend that the Sheriff require employees to use their own card when purchasing fuel. We further recommend that the cards be kept with the employee and that PIN numbers should be memorized and not written on the carrying sleeve. We further recommend that fuel credit cards of former employees be canceled and destroyed at the time employment ends.

County Sheriff's Response:

This recommended practice was all ready put into place as of April 02, 2002, when it was brought to the attention of the Sheriff of the confusion it made when the cars were fueled using the wrong cards. This problem has been corrected.

2) The Sheriff Should Require The Use Of Mileage Logs For Business Use of Personal Vehicles

We noted that one employee uses his personal vehicle for official business and has been issued a fuel card, but is not required to maintain a mileage log. We recommend that the Sheriff require a mileage log to be kept by employees using personal vehicles for business use.

County Sheriff's Response:

I felt it was of a lesser expense to the Department to let the bailiffs' supervisor use his own personal car and we pay for the fuel, rather than to furnish him with a full time vehicle. However, he will start completing a daily log for mileage as requested.

WARREN COUNTY
JERRY GAINES, SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 2001
(Continued)

SUBSEQUENT EVENT:

3) The Sheriff Should Not Loan Equipment Belonging To The Sheriff's Office

We noted one instance in which a cellular phone belonging to the Sheriff's Office was loaned to a former employee. A bill was received in June 2002 with related charges in the amount of \$1,991. This amount was promptly reimbursed to the sheriff's office the very next day. The Sheriff's office received three more bills with charges related to the loaned cell phone in July, August and September 2002. The additional charges totaled \$487 and were reimbursed to the Sheriff on September 23, 2002. All related charges were repaid to the Sheriff. Even though the former employee repaid all related charges, the Sheriff has a fiduciary duty to maintain control of all equipment belonging to the Sheriff's Office and to ensure that this equipment is used only for business related to the Office. We recommend that the Sheriff implement a policy to prevent equipment belonging to the Sheriff's Office from being loaned.

County Sheriff's Response:

This was a special circumstance of where an ex-employee of this department son was critically injured and she requested assistance from this department to get her to the airport. I felt no harm had been done since she had repaid the cell bill in full that she had made. But I will implement a policy to prevent this from being allowed in the future.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

To the People of Kentucky

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Members of the Warren County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the Warren County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated October 14, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Warren County Sheriff's financial statements as of December 31, 2001, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Improve Internal Control Related to Fuel Credit Cards
- The Sheriff Should Require The Use Of Mileage Logs For Business Use of Personal Vehicles

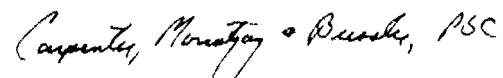
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the prior page are material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler
Frankfort, Kentucky

Audit fieldwork completed -
October 14, 2002

